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SUBJECT: SRI LANKA AND MALDIVES POST-TSUNAMI RECONSTRUCTION
UPDATE (September 22, 2005)

1. This cable is for the first Tsunami Oversight Quarterly Mechanism Meeting

2. Summary: Tsunami reconstruction activity in Sri Lanka continues apace, with improvements in overall coordination, but bottlenecks due primarily to the 100/200 meter ?buffer zone.? There have been recent suggestions by the GSL that a change in the ?buffer zone? policy is imminent, but there has been no action to date. The Government reports that it has achieved its target for temporary shelter construction, but is now engaged in a process of upgrading temporary units that were not built to appropriate standards. There are persistent concerns that some temporary shelter, particularly in the east, could be affected by flooding or high winds in the upcoming monsoon season. Permanent shelter construction has been slow, primarily due to confusion over land allocation and registration of beneficiaries. The overall economy appears to have been spared significant damage, despite high inflation, as a result of a rebound in tourist arrivals, good performance in the construction sector and the historically modest contribution of the fishing industry (decimated by the tsunami) to GDP.

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3. Summary (cont.) USG assistance to Sri Lanka has been important in moving the relief and reconstruction efforts forward. On the relief side, USAID/OFDA projects will be largely finished by 30 September, with only five of 25 grantees still operating programs. On the reconstruction front, the contract for USAID?s infrastructure projects was signed on September 6 and construction should start by January. US Peace Corps? Crisis Corps has 25 volunteers on the ground providing capacity building assistance to both international and local NGOs. USTDA will assist with projects in disaster management, communications, transportation and water. US-Sri Lanka debt deferral agreement terms have been agreed and a signing ceremony is being coordinated. PD will soon begin a program on trauma counseling and urban development in affected areas.

4. Summary (cont.): In Maldives, the GORM faces a financing gap of approximately USD 100 million for tsunami reconstruction. The effects of the tsunami on the economy were devastating to this small nation, with damage estimated at approximately 60 percent of GDP. The US contribution to the Maldives Tsunami Reconstruction and Relief Fund (TRRF) is still under discussion. End Summary.

Sri Lanka Rebuilding Efforts

5. Sri Lanka and its partners have completed the construction of 42,000 temporary shelters and are now working to upgrade shelters that have been deemed inadequate (Note: some early shelters were smaller than mandated in the Government?s ultimate guidelines and did not have sufficient water and sanitation facilities. End Note). The Task Force for Relief (TAFOR), the GSL entity in charge of temporary shelter, has scaled back efforts considerably, with a skeleton staff coordinating with NGOs on the upgrade efforts.

6. We are concerned about the location of certain temporary shelters, largely the result of the GSL?s initial desire to have a 100m/200m coastal exclusion (or ?buffer?) zone. Efforts to enforce the zone, and restrict construction, have potentially displaced thousands of families who previously lived very close to the coastline. In some cases the temporary shelters have been constructed away from the coast, but on land that is not suitable for long-term habitation, and that could be flooded in the coming monsoon season (which begins in late October).

--Buffer Zone Change Coming?

7. In August, USAID sponsored a visit to Sri Lanka by coastal management experts from FEMA, OFDA and USGS. These officials toured coastal areas and held discussions with

GSL officials responsible for urban planning, coastal conservation, reconstruction and disaster management. As a result of these meetings, Econchief and USAID Director were told by Mano Tittawella, Chairman of the GSL's Task Force for Rebuilding the Nation (TAFREN), that the GSL would consider an exemption for individual homeowners who wished to return to their homesteads inside the exclusion zone, as long as they followed stringent rebuilding guidelines. Thus far, this decision has not been implemented. However, on September 15 Finance Secretary P.B. Jayasundera told the Ambassador and other representatives of the donor community that the Government would make an announcement on the buffer zone ?within the week.? It is not yet clear if this announcement will be consistent with Tittawella's recommendation or not.

--Housing

18. On the permanent housing front, the GSL has a dual track underway. For individual homeowners outside the exclusion zone area, a grant program to support owner-driven reconstruction is underway. Owner-driven permanent housing reconstruction is increasing, both within and outside the buffer zone. Water and sanitation for this housing is a key concern. As of September 9, the Government has released approximately USD 23 million towards the rebuilding of 44,500 fully or partially damaged homes by their owners.

19. For homeowners who previously lived inside the exclusion zone, the GSL is working with NGOs to implement donor-constructed housing projects in new locations. This program has taken longer to get underway ? largely the result of GSL delays in granting land outside the buffer zone, a lack of appropriate infrastructure in newly identified areas and problems in the identification of beneficiaries. As a result of these challenges, most of the NGOs were reluctant to begin construction until it was clear that legitimate owners would occupy appropriate dwellings in suitable areas. As of September 9, the GSL had pledges from donors to rebuild 39,000 homes. 2,000 homes have been completed and 20,000 are under construction (Note: ?under construction? is a loose term that in some cases means ground has been broken but no structure yet. End note).

--New Disaster Management Council

10. The Government initiated a new National Disaster Management Council (NDMC), under the leadership of Brigadier General Gamini Hettiararchchi. Hettiararchchi told Econchief that he had been instructed by the President to have the council and communication and evacuation procedures in place by October. NDMC is experiencing some typical new agency glitches, including a slower than expected effort to recruit and hire staff. We have found Hettiararchchi very impressive so far.

11. Ultimately the NDMC is expected to be the coordinating body for all hazard response in Sri Lanka. It will recruit and train first responders and will work through district-level representatives in order to maximize community involvement.

--Economy OK

12. The Sri Lankan economy (at the macro level) appears to have weathered the tsunami with minimal disruption, though high oil prices and certain non-tsunami related policy decisions have led to an increased budget deficit and high inflation. On the micro-level, in tsunami affected areas, livelihoods have been severely affected.

13. The Central Bank estimates that Sri Lanka's economy will grow approximately 5.4 percent this year, only 0.1 percentage points lower than initial estimates. The minimal impact is largely the result of increased remittances stabilizing the Sri Lankan rupee, which had been in free fall prior to the tsunami, and the fact that the main industries affected were tourism and fisheries, neither of which has a major impact on GDP (Note: tourism is the fourth largest foreign exchange earner in the country, but it represents only about 2.5 percent of GDP. End Note). The construction sector, which was a larger share of GDP than both tourism and fisheries combined, is expected to continue to show strong growth, particularly with Sri Lanka's reconstruction needs.

14. While the tourism sector does not currently comprise a significant share of GDP, it is seen as a sector with tremendous potential. There had been concerns that the tsunami would keep tourist arrivals low well into the near

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future. However, tourist arrivals have been up 13 percent

in 2005, despite a slow start in the immediate aftermath of the tsunami. There has reportedly been a significant increase in regional visitors from India, Malaysia and Singapore.

US Assistance to Sri Lanka -----

--USAID

15. USG programs in Sri Lanka are well underway and making solid contributions to the relief and reconstruction effort. USAID/OFDA was one of the first donors to respond to the tsunami and has provided over USD 36.5 million in grants to partner organizations for relief and reconstruction activities. As of October 1, of the 25 OFDA programs initiated after the disaster, only five will remain for closeout. OFDA has been a major player in relief operations, microfinance and the transitional housing sector.

16. On the reconstruction side, USAID will provide USD 33 million in large-scale infrastructure assistance. USAID completed its tender process in late August and signed a contract with CH2M Hill International on September 6 for project implementation. USAID will:

- build a new 700 meter bridge over Arugam Bay (in eastern Sri Lanka), improve water and sanitation facilities in the surrounding area, and consult with communities on tourism development;

- rebuild up to 14 vocational educational facilities, including two model schools, and provide equipment and technical assistance with curriculum design; and,

- work closely with communities to rebuild and upgrade fisheries in Dondra, Hikkaduwa and Mirissa (in Western and Southern Sri Lanka).

We expect construction to begin in January.

--USTDA

17. The U.S. Trade and Development Agency (USTDA) will provide US\$ 2,095,000, through five separate grants, for tsunami-related reconstruction efforts related to emergency

SIPDIS communications, water and transportation in Sri Lanka. The Ambassador signed these agreements and held a related press conference on September 19.

--Crisis Corps

18. Peace Corps Crisis Corps began its operations in Sri Lanka in early April, 2005. We have recently approved continuation of the program past six months, and current plans are for Crisis Corps to continue its operations through the end of September 2006. Crisis Corps has 25 Volunteers in country working with local and international NGOs to build capacity of staff, to support institutional development and activities as related to post-tsunami projects and programs. All volunteers work for 3-6 months with partner organizations. Crisis Corps plans to have 2 more rounds of 15 volunteers serve over the next year.

--Debt Deferral

19. In accordance with the agreement struck by the GSL with the Paris Club, the USG has offered to defer USD 40 million in debt owed by the GSL. Agreement language has been approved and Post hopes to arrange signature of the documents within the next week.

--Other Efforts

20. Post's PD office will soon sign a USD 75,000 contract with the University of Pennsylvania to set up programs with Sri Lankan universities dealing with trauma counseling and urban development in affected areas. There is also a USG team in Colombo this week to discuss the Indian Ocean Early Warning System assistance program that is being run out of USAID/Bangkok.

Maldives -----

21. The GORM is facing a severe financing gap (approximately USD 110 million) for its reconstruction efforts. The overall effect of the tsunami on the tourism industry has led to a significant budget shortfall (approximately USD 100 million) (Note: resort occupancy fell to less than 30 percent for several months following the tsunami. Maldives resorts had been running at almost 90 percent occupancy previously and are just now getting

above 70 percent. End Note). Economic growth is expected to contract by 2.4 percent in 2005 (economic growth was 7.5 percent in 2004 and has been steadily increasing over the past five years). International reserves are down to 1.5 months of import cover. The tsunami damage has been estimated to be as much as 60 percent of GDP.

122. Various Red Cross entities (the IFRC, French Red Cross, Canadian Red Cross) have pledged approximately USD 57 million, which will be used to handle restoration of housing. The GORM estimates it still needs approximately USD 16 million for housing, USD 4 million for education support and USD 27 million (the largest shortfall) for water and sanitation. DCM and Econchief met with World Bank and UN representatives in Maldives on September 14. Both representatives commented that progress on the reconstruction front has been slowly moving ahead, though financing gaps have caused delays.

123. The US has pledged USD 8.7 million to Maldives? Tsunami Relief and Reconstruction Fund (TRRF). Post is

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currently in discussions with the Ministry of Finance regarding the agreement. In addition to water and sanitation and electrification, Maldives might apply some U.S. funds to financial sector capacity building. While this project may sound unrelated to the tsunami, Maldives usually deals with foreign assistance of about USD 30 million per year and keeps their national accounts in the small business computer application ?Quickbooks.? The tsunami has increased the amount they need to absorb to

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approximately USD 350 million. The Finance Ministry is stretched to its limit. The World Bank and ADB are also looking at contributing to this effort. End Note).

124. Econchief has met with Deputy Finance Minister Riluwan Shareef twice in Maldives and has urged a faster GORM response. DCM met recently with the Foreign and Finance Ministers and has also urged quick action to get US funds flowing. It is clear, however, that while the technical capacity of the GORM players is high, the bench is not deep. Most of the senior GORM Finance officials are in Washington for the World Bank/IMF meetings this week, but have promised to continue their coordination efforts and get a response to us soon.

Comment

125. COMMENT: As the one-year anniversary of the tsunami approaches, Sri Lanka has in many ways made good progress, with most tsunami-affected people in acceptable, if not ideal, shelter. As the Northeast monsoon approaches, however, many of these people may be displaced yet again. This will likely occur around the time of the anniversary, with resultant negative international media attention. Movement into permanent shelter continues to be hampered by poor coordination among different sectors (housing, land, electricity, water and sanitation) and by continued confusion over the buffer zone. Clarification on the buffer zone--if we get it--should help immensely. Maldives continues to face enormous capacity challenges.

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